FDIC State Profile

SUMMER 2003

North Carolina

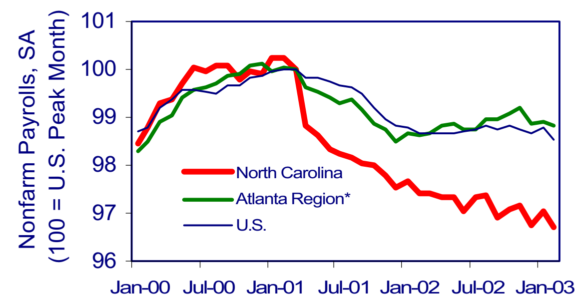
North Carolina continues struggling to emerge from the recent recession.

- Employment growth in North Carolina peaked in mid-2000; however, the state did not fall into recession until early 2001. Between January 2001 and February 2003, the state lost 139,000 jobs, a decline of 3.5 percent. Following increases in employment toward year-end 2002, payrolls resumed declining in early 2003 (see **Chart 1**). Renewed signs of weakness displayed by the national economy may constrain any recovery during 2003.

- At first glance, labor market conditions appeared to improve as the erosion in job losses eased toward the end of 2002. The state's unemployment rate fell over 100 basis points from its peak of 6.9 percent reached in April 2002 to 5.8 percent in February 2003. However, the trend may be somewhat misleading as much of the apparent jobless rate's decline may be due to shrinkage in the state's labor force.

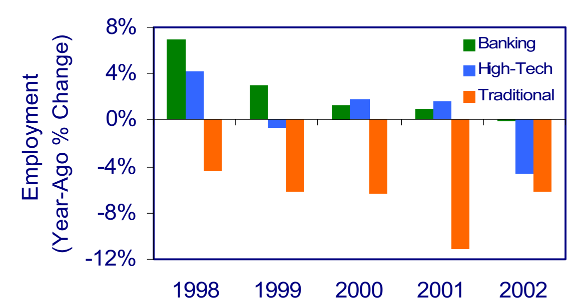
- The performance of the North Carolina economy during the recent recession has been shaped by the industrial mix. Manufacturing remains a greater component of the state's economy than the nation's, representing nearly 20 percent of the workforce, compared to 13 percent nationally. Traditional industries, such as furniture, textiles, and apparel production, continue to play an important role in many local economies. The state's high-tech sector also expanded during the 1990s, while banking remains an important component of the ***Charlotte*** and ***Greensboro*** MSAs, economies. Typically, a relatively high level of industrial diversity may insulate local economies during downturns. However, because of the specific mix of industries, this has not been the case for the North Carolina economy. Job losses continued in the state's traditional industries, and employment in the high-tech and financial services sectors declined during 2002 (see **Chart 2**). The ***Hickory*** MSA is a good example of this trend as employment shifted from the traditional industrial base, for example, furniture manufacturing, into fiber optic cable manufacturing during the 1990s. However, the telecommunications industry collapse diluted what may have been positive effects of industrial diversification.

Chart 1: Employment Conditions in North Carolina Remain Weak



*Atlanta Region includes AL, GA, FL, NC, SC, VA, WV.
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Employment in Key North Carolina Industries Has Weakened



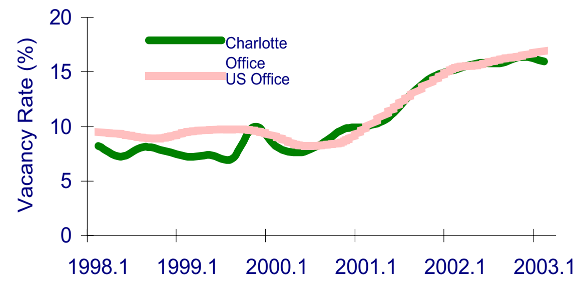
Source: Global Insights, Inc.

- Housing markets appear to be weakening in the Hickory, Charlotte, ***Greenville, Jacksonville, Raleigh,*** and ***Rocky Mount*** MSAs, where home price appreciation moderated substantially towards the end of 2002 and may fail to keep pace with inflation. Early in 2002, builders in the Raleigh metro area increased inventories in expectation of a late year recovery. Continued weak economic growth has cooled demand, however, with builders cutting prices to reduce inventories.

Conditions remain sound at community banks headquartered in North Carolina, but asset quality concerns are growing.

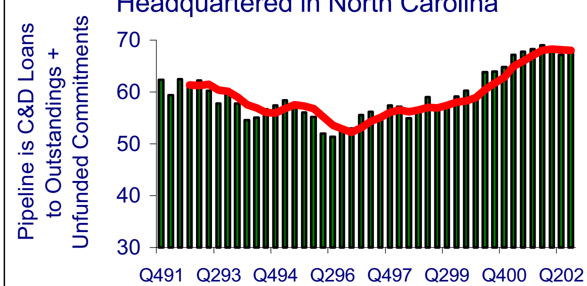
- North Carolina community banks[1] achieved record performance in 2002. Net income grew 40 percent to $163 million, up from $116 million at December 31, 2001. Consequently, average profitability measures at these banks were also on the rise as average return on assets (ROA) and net interest margins (NIM) both experienced gains after falling off in 2001. ROA gained 21 basis points to 1.03 percent combined with a 19 basis-point increase in NIMs to 4.16 percent. Despite the increases, these performance measures remained just below the regional average of 1.06 and 4.32 percent, respectively. Increases in both interest and noninterest income coupled with greater efficiency and manageable provision expenses led to the improved profit performance.
- Although slowing in each of the past two years, rapid loan growth has continued throughout this economic downturn. Total loans grew 16 percent year-over-year with the majority of the increase occurring in the nonresidential real estate loan segment. Among community banks headquartered in North Carolina at December 31, 2002, nonresidential loans comprised 20 percent of assets, up from 18 percent one year earlier.
- Loan portfolio earnings were augmented by the shift into higher-yielding commercial real estate (CRE) loans. While the increased exposure has bolstered profitability, community banks headquartered in the state also may have heightened the level of balance sheet risk. The average total CRE exposure[2] among community banks headquartered in the Raleigh, Charlotte, and Hickory MSAs[3] was significant with each MSA reporting over 30 percent of assets held in CRE loans, increasing the vulnerability of institutions headquartered in these areas to rising or high vacancy rates. Total CRE exposure for the Region as a whole was 29 percent of assets. Banks headquartered in the Charlotte and Raleigh MSAs have started to report asset quality problems as of December 31, 2002. Charge-offs and noncurrent loan levels surged in each of the respective MSAs as office vacancy rates in both areas rose throughout 2002. Through first-quarter 2003, the Raleigh office vacancy rate[4] was well above the national average at close to 26 percent, while Charlotte was in line with the nation at just over 16 percent (**Chart 3**). Exposures to CRE in the Raleigh and Charlotte MSAs were 42 and 32 percent of assets, respectively, as of year-end 2002.

Chart 3: Charlotte Office Vacancy Rates Have Risen in Line with the Nation



Source: Torto Wheaton Research

Chart 4: Use of Credit Lines May Mask Asset Quality Problems Among Community Banks[1] Headquartered in North Carolina



[1]Commercial banks with less than $1 billion in assets, excluding specialists.
Source: Bank Call Reports, Data Through 4th Quarter 2002

- Community bank construction and development (C&D) loans, which are primarily for residential construction, continued to represent a significant portion of total assets at 9.5 percent. Banks headquartered in North Carolina have not reported any significant deterioration in asset quality in C&D loans as of fourth-quarter 2002. In fact, noncurrent loan levels improved during the past year. However, debt restructurings and the use of credit lines may be keeping payments current, masking any weakening in C&D loan quality (**Chart 4**).

[1] Community banks have assets less than $1 billion and exclude specialty institutions and thrifts.

[2] Total CRE consist of construction and development, nonresidential real estate, and multifamily loans.

[3] Only MSAs with four or more banks were used.

[4] Raleigh data from Torto Wheaton research has only been compiled for last five quarters.

North Carolina at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	108	115	118	117	123
Total Assets (in thousands)	1,006,848,524	962,554,092	988,017,824	943,400,188	673,916,433
New Institutions (# < 3 years)	14	16	22	22	24
New Institutions (# < 9 years)	39	41	39	33	32

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.59	9.68	10.52	11.60	11.91

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.50%	1.61%	1.49%	1.34%	1.35%
Past-Due and Nonaccrual >= 5%	8	11	10	5	7
ALLL/Total Loans (median %)	1.32%	1.30%	1.31%	1.26%	1.25%
ALLL/Noncurrent Loans (median multiple)	2.14	1.71	2.36	2.30	2.27
Net Loan Losses/Loans (aggregate)	0.80%	0.84%	0.68%	0.43%	0.35%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	11	17	23	19	20
Percent Unprofitable	10.19%	14.78%	19.49%	16.24%	16.26%
Return on Assets (median %)	0.84	0.64	0.73	0.83	0.86
25th Percentile	0.63	0.25	0.31	0.38	0.35
Net Interest Margin (median %)	3.84%	3.58%	4.04%	4.02%	3.99%
Yield on Earning Assets (median)	6.47%	7.56%	8.28%	7.78%	7.94%
Cost of Funding Earning Assets (median)	2.56%	3.98%	4.33%	3.80%	3.96%
Provisions to Avg. Assets (median)	0.29%	0.19%	0.22%	0.15%	0.13%
Noninterest Income to Avg. Assets (median)	0.83%	0.66%	0.54%	0.55%	0.49%
Overhead to Avg. Assets (median)	2.87%	3.02%	3.05%	3.13%	2.98%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	90.82%	89.47%	89.70%	89.44%	82.84%
Loans to Assets (median %)	72.10%	70.68%	70.86%	69.69%	67.02%
Brokered Deposits (# of Institutions)	31	23	23	16	9
Bro. Deps./Assets (median for above inst.)	4.73%	3.69%	2.51%	1.81%	0.94%
Noncore Funding to Assets (median)	23.22%	22.61%	21.06%	19.82%	15.26%
Core Funding to Assets (median)	63.68%	62.85%	63.91%	65.26%	67.56%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	56	60	64	57	53
National	6	8	9	10	11
State Member	8	7	2	4	4
S&L	8	8	10	11	13
Savings Bank	9	9	9	7	9
Mutually Insured	21	23	24	28	33

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	37	10,230,536	34.26%	1.02%
Greensboro-Winston-Salem-High Point NC	20	71,206,101	18.52%	7.07%
Charlotte-Gastonia-Rock Hill NC-SC	16	890,291,609	14.81%	88.42%
Raleigh-Durham-Chapel Hill NC	13	14,505,351	12.04%	1.44%
Hickory-Morganton NC	6	1,928,687	5.56%	0.19%
Wilmington NC	4	944,166	3.70%	0.09%
Rocky Mount NC	4	15,820,536	3.70%	1.57%
Asheville NC	4	742,082	3.70%	0.07%
Norfolk-Virginia Bch-Newport News VA-NC	1	112,354	0.93%	0.01%
Greenville NC	1	19,967	0.93%	0.00%
Goldsboro NC	1	902,525	0.93%	0.09%
Fayetteville NC	1	144,610	0.93%	0.01%